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## **Regulatory and Energy Assistance**

**Regulatory and Energy Assistance Project in Bosnia and  
Herzegovina (BiH) – REAP BiH**  
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**Quarterly Progress Report**  
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## I. BRIEF OUTLINE OF PROJECT PURPOSE AND APPROACH

On March 12, the USAID Regulatory and Energy Assistance Project (REAP) was extended to September 30, 2013. The two main objectives of the project activities remain the same, to (i) achieve a fully integrated energy sector into the regional market and the EU; and (ii) restructuring and commercialization of energy companies. The tasks under each Task Objective have changed, as can be seen in Sections VI and VII of this Quarterly. REAP is a market development oriented project that specifically works to open the BiH market, with as many preconditions in place as possible. Market opening involves removing market impediments. To that end, REAP works to harmonize the regulatory work of the three commissions to facilitate integration of the market into the regional and EU markets and assist in the technical and detailed regulatory preparation for market opening. REAP also assists the State institutions to facilitate BiH speaking with one voice in internal and international liberalization, including gaining familiarity with the EU Third Liberalisation Package. Also, REAP assists the State Ministry for Foreign Trade and Economic Relations (MOFTER) to continue efforts on the state gas law. Regarding the second Task Objective, restructuring and commercialization of energy companies, REAP works in three areas: (i) assists the Federation to develop the Electricity Law where unbundling of Federation EPs will be prescribed. REAP will also assist the Federation to develop an energy policy; (ii) comments on the EPs' restructuring documents as requested, and (iii) assists the EPs to develop and implement solutions to receive revenues that reflect their justified costs.

As the only energy reform assistance in BiH, REAP provides advice and assistance as needed to the international community through USAID and other USAID, EU, and various international projects.

## II. BRIEF DESCRIPTION OF SIGNIFICANT ACTIVITIES

Assist/lead Market Working Group:

***Lead and assist sub-group on extension of transition period.*** REAP continued to assist the three regulatory commissions in the establishment of the Default Supplier mechanism as a tool to create preconditions for successful market functioning, with particular attention to the mechanism to make electricity prices more market oriented.

As a first step this quarter, REAP invited the three regulatory commissions to a joint meeting where they had been requested to present their concepts on the establishment the Default Supplier Mechanism. Also the goal of the meeting was to further harmonize the three regulatory commissions' approaches on the further steps in regard to market opening, based on the establishment of the this mechanism. After the three regulatory commissions gave the presentations, REAP found that State Electricity Regulatory Commission's (SERC) and the Republika Srpska Energy Regulatory Commission's (RSERC) default supplier mechanism were similar in their basic and most important aspects, while the Federation Electricity Regulatory Commission's (FERC) approach differed in that the customers would be transferred to the default supplier mechanism gradually and not all at once like in the approach of the other two commissions. At the end of the meeting, REAP warned participants that decisions and potential amendments to the laws that support the described approach regarding the establishment of the Default Supplier mechanism, should be carefully crafted, particularly having in mind the following issues: (i) All suppliers must have the same approach to all customers; therefore, any

prescription formulation that addresses any particular company as the Default Supplier will be treated as noncompliance with the Treaty; (ii) When selecting the Default Supplier, the regulator must issue a license that will have a limited duration period and ensure security of supply for those who cannot find a supplier at the market. In addition, REAP addressed the need for the regulatory commissions to develop action plans to eliminate impediments and create preconditions for market functioning after 2015.

***Assist regulators to require and EPs to implement load research.*** In the beginning of this quarter REAP organized a one-day kick-off meeting of the Load Research Working Subgroup (Subgroup) with members from the three regulatory commissions and the three BiH power companies (EPs). The task of this Subgroup is to coordinate the execution of Load Research in all three EPs. Load Research allows utilities to better plan electricity demand, distribution network development and market prices, and it enables regulators to determine regulated prices with more accuracy.

The following issues were discussed in the meeting: (i) The goals and Methodology to implement the Load Research; (ii) How to implement Load Research; (iii) the Load Research Subgroup Activity Plan; (iv) How to organize a team for Load Research; (v) the EPs current activities and plans for performing Load Research; (vi) Next steps. REAP and technical assistance presented items (i) to (iv), while EPs representatives presented their current work on this issue.

After the kick-off meeting, REAP developed two documents for the power utilities' Load Research teams: (i) a Template for the Scope of Work to perform Load Research in the utility; and (ii) the Draft Questionnaire that power utilities will distribute to customers. The Scope of Work document should help power utilities' teams to develop their own Scope of Work, while the Draft Questionnaire should help them to create an Inquiry for their customers.

The Second Load Research Subgroup meeting took place in Trebinje, in the EPRS Head Office. The meeting was attended by the representatives of the three regulatory commissions, three EPs and Brcko District, with a total of 16 people attending.

REAP and technical assistance presented the Scope of Work for the EPs to do a Load Research Study and develop a Questionnaire for Customers. Technical assistance made a presentation on how the EPs should design samples for Load Research. In addition, the EPs reported on actions they have undertaken between the two Subgroup meetings.

***Lead Case Study effort, consisting of open market base case and scenarios.*** REAP organized a two-day kick-off meeting of the Case Study Market Opening Working Subgroup (Case Study Subgroup). The task of the Case Study Subgroup is to examine in detail what the processes for market opening should be, what processes have been developed and what processes already exist in the laws and rules. The end result of this phase of the Case Study is to develop a gap analysis. The Subgroup plans to address licensing, making and terminating contracts, billing, switching, balance settlement, metering, access to customer and supplier data. The meeting was attended by 24 attendees from the three power utilities in Bosnia and Herzegovina, the three regulatory Commissions, the Independent System Operator (ISO) and the Brcko District.

The attendees discussed the following issues: (i) The goals of the Case Study; (ii) the proposed approach to the development of the Case Study and timing; (iii) the Action Plan and the Subgroup working methodology; and (iv) Modules of the Scope of Work that should be

discussed in the kick-off meeting. The discussion was based on the REAP presentations on the four issues. Throughout the meeting, the attendees engaged in animated discussions. The issues that were the hottest topics were measurement and balancing, because the measurement is the basic preconditions for successful functioning of the electricity market and the balancing.

Earlier REAP had also prepared a draft General Terms and Conditions for Power Supply Contracts and sent it to the Subgroup for discussion, with the intention to initiate a discussion and agreement on the text, so the Subgroup can propose the General Terms and Conditions to be used in all Power Supply contracts. As a result of the discussion, common agreement was made to work further to develop such document.

At the end of the meeting REAP also requested attendees to send their opinions on the relations between the Customers, Distribution System Operators (DSO), Suppliers, Independent System Operator (ISO), and Balancing Responsible Party (BRP), meaning how the parties interact and specifically in what processes.

On the basis of REAP's research and the opinions of the Subgroup members on the above-mentioned inter-party relations, REAP later prepared a document that distilled the views of the three EPs, ISO and the representative of EFT Group on this issue. In that document REAP concluded that there were two different options on how to create these relations. In both cases, the existence of the BRP is envisaged. The first option is an arrangement where the ISO receives all metering data from DSOs, generators and customers who belong to a Balancing Group and aggregates these measurements so the BRP can "see" the net imbalances of the Balancing Group. The second option is the arrangement where the BRP receives all measurement data from DSOs, generators and customers who belong to that BG, so the BRP can "see" the imbalances of all members of the BG in real time. REAP also made a brief analysis of the laws and rules that should describe the procedure and relations between the participants in the balancing system. The goal of this analysis was to check whether these documents clearly delineate the balancing procedures. The analysis showed that documents need to be harmonized and changed to set up a clear position and duties of each participant in the balancing mechanism.

***Advise and assist the State Ministry of Foreign Trade and Economic Relations (MOFTER) to undertake actions to implement new obligatory decisions made by the Energy Community.*** MOFTER was requested by the Energy Community Secretariat to prepare two questions on market opening to initiate a panel discussion at the Athens Forum. On MOFTER's request, REAP prepared two questions –the Metering requirements for market opening and the Default Supplier Mechanism as possible interim solutions between fully regulated electricity prices system and fully deregulated electricity pricing system.

***Advise and assist if requested with further developments on drafting State Gas Law.*** REAP met with the representatives of RS Ministry for Energy, Mining and Industry to discuss the recent developments regarding the gas sector in BiH. In the meeting REAP explained that the Energy Community Secretariat issued an Opening Letter for a dispute against Bosnia and Herzegovina for noncompliance with the gas requirements of the Treaty. REAP also reminded the RS Ministry representatives on the latest positions that the Federation and Republika Srpska sides had taken during the negotiations on the organization of the gas sector in BiH. RS representatives confirmed that the RS position remained the same. A meeting on the same topic was held with MOFTER, in which REAP suggested that the Secretariat's letter is a good reason for MOFTER to initiate a new discussion between two entity ministries on the organization of the Gas Sector in BiH.

To prepare the answer to Energy Community Secretariat on the opening letter MOFTER organized a meeting in which the two entities ministries repeated the same statements they made in Expert Team meetings that had been held from April to July 2010. The two entity positions are particularly different with regard to two issues: (i) State Electricity Regulatory Commission jurisdiction (the Federation wants SERC to have full jurisdiction over the transportation [transmission in the United States] sector, like in the electricity sector, while the RS wants only limited jurisdiction, which involves, for example, no regulation of transportation tariffs by SERC), and (ii) how to organize the transport of gas (the TSO(s) issue). The Federation wants one combined country wide TSO, while the RS wants to have multiple smaller TSOs, as is currently the structure. After a long discussion, the following proposal made by REAP was accepted: (1) with REAP's assistance, MOFTER would prepare the answer to the Energy Community Secretariat letter, explaining the basic disagreement between two entity ministries and the need for political negotiation on this disagreement; (2) the Federation Ministry of Energy, Mining and Industry would analyze the Opening Letter and comment on it from the aspect of the Federation Draft Law on Gas, item by item (the same as the RS Ministry did); and (3) the Entity ministries' findings from the analyses, together with a description of the disagreement, will constitute MOFTER's answers to the Energy Community Secretariat.

Thereafter, REAP prepared a Draft answer for MOFTER to reply to the Energy Community Secretariat Opening Letter regarding implementation of the *Acquis Communautaire* for Gas in Bosnia and Herzegovina. In the draft answer, the basic disagreement between two Entity Ministries regarding the organization of the Gas Sector and the role of SERC regarding the regulation of international and internal issues was explained. The letter recommended that the issues be elevated to enable political negotiation on these disagreements.

***Assist as necessary and when requested in restructuring and commercialization of energy companies.*** REAP and USAID met with EPBiH and discussed the restructuring/unbundling of EPBiH. REAP and EPBiH also presented their views of the initiative, initiated by EPRS and EP HZHB, to return the transmission-related 110 kV network from the Transco to the three power utilities in Bosnia and Herzegovina. REAP supported the idea to start negotiations on 110 kV network, which could help the two governments to find common ground on how to make the Transco functional.

***Monitor decisions made by Energy Community and update implementation.*** After analyzing the Energy Community Secretariat Annual Report on the Implementation of the *Acquis Communautaire*, REAP requested a meeting with MOFTER to remind/inform MOFTER representatives that the annual report addressed a number of Energy Community Treaty areas with which Bosnia and Herzegovina does not comply. In the meeting, REAP suggested that MOFTER prepare a document to inform the BiH Ministerial Council and all Energy Sector Stakeholders on the obligations they have to fulfill to implement the Treaty. REAP also presented an idea as to which body or institution MOFTER should assign the issues from the Report so that they recognize themselves as the body obliged to undertake the needed action to implement the Treaty. In addition, REAP initiated a discussion on Regional Market Opening and informed MOFTER that the Market Working Group developed and REAP later updated a Draft BiH National Action Plan for Market Opening that is based on the Regional Action Plan. REAP also suggested that MOFTER initiate a process in the BiH Ministerial Council and entity governments to analyze this National Action Plan and take positions on it. At the conclusion of the meeting, MOFTER requested REAP to assist them on better understanding of these documents and on creating further activities with regard to them.

***Donors cooperation.*** REAP and USAID met with the representatives of the EU Delegation (Representatives) in Bosnia and Herzegovina at their request. The EU Representatives initiated a meeting to prepare a proper engagement of the EU delegation with the parliamentarians in BiH dealing with *Acquis*-related energy issues. They also mentioned that they had agreed with the U.S. Ambassador on greater cooperation between the EU Delegation and the U.S. Embassy in BiH on EU integration-related issues. In that context, they wanted to share experiences in relation to electricity market opening and the Energy Community Treaty obligations gathered by REAP during its project.

***Advise and assist the Federation Ministry for Energy, Coal and Industry (FMERI) with regard to new Federation Electricity Law.*** The Draft Federation Electricity law was discussed and adopted after a lengthy discussion in the Federation Parliament. The general feeling in the Parliament on this Draft Law is quite positive; there were neither harsh objections nor contradictory opinions among the Parliament members. The Parliament decided the Draft Law would go into the Public hearing procedure, after which the Ministry will collect, analyze and include acceptable amendments to the Law, with a deadline of 30 days. The new version of the Law with amendments will be discussed again at the FBiH Parliament after that time.

REAP attended one out of the three planned Public Hearings on the Draft FBiH Law on Electricity. In the Public Hearing Session it attended, REAP proposed an amendment to the Law regarding reporting on Security of Supply, since the absence of it in BiH legislation was repeatedly mentioned in the Energy Community Secretariat reports on BiH compliance with the Treaty. This proposal was accepted by the FBiH Government representatives at the session.

***Assist regulators to refine the model and revise the rules on tariff methodology.*** REAP attended the FERC Public hearing on Draft FERC amendments to the Rule on Obtaining the Status of Eligible Customer. In the meeting the FERC representative addressed the most important change to the existing Rule on Obtaining the Status of Eligible Customer – the extension of the transition period from January 1, 2012 to May 31, 2012. In the existing Rule eligible customers were allowed to choose whether to be supplied by a market supplier at the market price or to be supplied by a regulated supplier at the tariff price during the transition period. REAP used this opportunity to inform the attendees about REAP's and the Market Working Group's activities on the default supplier mechanism, the result of which is the introduction of that mechanism in the Bosnia and Herzegovina Electric Power Sector. In addition, REAP explained the basics of the default supplier mechanism, the practice applied in Europe and the region and the key criteria that have to be applied in Bosnia and Herzegovina to meet the requirements of the EU Directive and Energy Community Treaty with regard to market opening.

***Assist regulators to refine the model and revise the rules on tariff methodology.*** REAP attended the RSERC Public hearing on Draft Rule on Eligible Customer. The hearing was well attended by the representatives of the ISO, EPRS and FERC. The proposed Rule on Eligible Customers came out as a result of the common Market Working Group and REAP's works on the Transition period issue and the establishment of the Default Supplier mechanism. REAP found that RSERC implemented all recommendation from the document on the establishment of the Default Supplier Mechanism that REAP developed as the result of REAP and the MWGs' work. After the public hearing, REAP made a detailed analysis of the document and found some details in the Draft Rules that should be better formulated to make the document more clear, transparent and understandable. These details are those provisions where the Rules determine the procedures to change the supplier and use of the Supplier of Last Resort service, need to be additionally analyzed and prescribed. REAP sent these findings to the RSERC.

### **III. PERFORMANCE PROBLEMS**

- Unbundling. The Federation EPs still remain fully bundled, but the new Draft Electricity Law prescribes functional, operational and legal unbundling of the Public Power Utilities.
- Investments. Investment is still problematic in BiH. In spite of the plans to build new power plants in both Entities, very little interest has been shown by investors. High investment risk remains due to the political situation, the situation with Transco and an unclear investment legal framework.

### **IV. EIGHTEENTH QUARTER DELIVERABLES**

#### *Information for USAID*

- Glas Srpske Article on Elektrokrajina, dated 10-4-11, in English and local language
- FMERI Ruling on WG for FBiH AP, dated 10-14-11, in English and local language
- Information on Election of FERC President, dated 10-7-2011, in English language only
- Connection contract EP HZHB, translated on 10-24-11, in English and local language
- Connection contract EP BiH, translated on 10-24-2011, in English and local language
- Letter FMERI to MOFTER re Tranco Law amendments, dated 11-29-11, in English and local language
- Balancing market model ISO, dated 12-20-2011, in English and local language
- Information on harmonized principles on Transco, dated 12-16-2011, in English and local language
- Letter from RS Ministry to MOFTER re 110kv lines, dated 12-19-2011, in English and local language
- SERC Letter to MOFTER re 110 kV, dated 12-19-2011, in English and local language

#### *Deliverables*

- MOFTER Two questions for Athens Forum 10-7-11 English
- Memo to USAID on Transco 110 re-conveyance 10-7-11 English
- Letter from EPs to MOFTER re Transco ISO Laws, dated 9-15-10-6-11, in English and local language
- Memo to USAID regarding WG for updating the FBiH AP, dated 10-14-11, in English language only
- Agenda for Case Study kick-off, dated 10-17-11, in English and local language
- Proposed Case Study Teams, dated 10-12-11, in English and local language
- REAP SOW Case study, dated 10-18-2011, in English and local language
- Time Schedule for the Case Study, dated 10-17-11, in English and local language
- REAP proposed amendment and change to the pending Federation Electricity Law, dated 10-21-11, in English and local language
- USAID Presentation 10-28-11\_revd for the Embassy in English
- Detailed Agenda for Case Study, dated 10-26&27-11, in English and local language
- Memo on Report on Implementation of acquis, dated 11-4-2011, in English and local language

- Minutes of the Case Study kick-off meeting, dated 26 and 27 Oct 2011, in English and local language
- Letter REAP to FERC, dated 10-31-11, in English and local language
- Detailed Agenda – LR, dated 11-8-11, in English and local language
- Time schedule to perform LR Technical Assistance, dated 10-18-11, in English and local language
- REAP Eighteenth Quarterly Report, dated 11-7-11, in English language only
- Minutes of the Kick-off Meeting LR, dated 11-10-11, in English and local language
- Email Communication between Ognjen Markovic and Dragan Andjelic EFT regarding Case Study, dated 11-22-11, in English and local language
- Case Study JP EPBIH comments and responses, dated 11-28-2011, in English and local language
- EP HZHB comments on Case Study market balancing responsibility, dated 11-28-11, in English and local language
- RSERC Comments to the Supply Contract, dated 11-15-11, in English and local language
- USAID REAP Load Research Kick-off meeting presentation Konjic, dated 11-10-2011, in English and local language
- USAID REAP Load Research Kick-off meeting presentation Markovic, dated 11-10-2011, in English and local language
- JPEPBIH market functioning principle, in English and local language
- REAP Draft response letter to Secretariat's Opening Gas letter of 10-7-11, dated 12-5-11, in English and local language
- Letter EP HZHB to FERC re Load Research, dated 11-23-11, in English and local language
- Letter FERC to EP BiH re Load Research, dated 11-21-11, in English and local language
- Letter FERC to EP HZHB re Load Research, dated 11-21-11, in English and local language
- RSERC Notice on issuance of the Draft Rulebook on Eligible Customer, dated 12-12-11, in English and local language
- EPRS Comments on the Case Study, dated 12-20-11, in English and local language
- Minutes of the Meeting on Load Research, dated 12-30-2011, in English and local language
- Time schedule to perform Load Research Technical Assistance, dated 12-26-11, in English and local language

## V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

### **BiH energy sector fully integrated into the regional market and the EU**

- REAP will continue to update the Internal Action Plan that has been prepared by REAP.
- REAP will work with regulators to finalize the market opening concept based on the establishment of the Default Supplier mechanism.
- REAP will continue its research ancillary services and balancing service and elicit comments and suggestions from the utilities.
- Consistent with its detailed Scope of Work on Load Research Study and the approved Action Plan of the Subgroup, REAP will prepare the Draft Guidelines on sample design and sample implementation, as well as the translated Load Research manual. REAP will also organize the

third Subgroup meeting to discuss the final version of these guidelines and EPs activates to do sample design from the customer database.

- Consistent with its detailed Scope of Work for the Case Study and the approved Action Plan of the Subgroup REAP will analyze processes that determine all actors' roles in the retail and wholesale market, mutual relations and market related information flow (commercial processes). REAP and STTA will research international practice regarding these processes and BiH regulations that should describe these processes in the BiH electricity market. REAP will primarily focus on the gaps in local legislation, regulations and rules. These analyses will be presented at the next Case Study Subgroup meeting for discussion.
- REAP will assist MOFTER to coordinate activities on the development of the Wholesale regional Electricity market.
- FBiH Draft Electricity Law: As requested, REAP will assist FMERI to process amendments and prepare the final Draft Electricity Law for the FBiH Parliament.
- State Gas law: If and when requested, REAP will assist MOFTER, the two entity ministries and BiH Gas in development of the State and FBiH gas laws and changes to the RS Gas Law.

### **Restructured and commercialized energy companies**

- REAP will continue its assistance to the Federation Ministry of Energy, Coal and Industry on the development of the energy policy and adoption of the new draft electricity law to ensure a framework for restructuring of public power utilities is prepared.

## **VI STATUS OF ACTIVITIES AS DEFINED IN WORK PLAN**

### **TASK OBJECTIVE 1: FULLY INTEGRATED ENERGY SECTOR INTO THE REGIONAL AND EU MARKETS**

In the reporting quarter, REAP focused primarily on the two Market Working Group active subgroup activities: the Load Research Group and the Case Study during the reporting period. Efforts were also directly towards assisting the two Entity regulators on their draft rule revisions on the eligible customer, which would include the Default Supplier structure. Also, since the last election repopulated the political landscape, REAP also had a series of meetings to see whether a State Gas Law is possible at this time. Finally, additional assistance was given to MOFTER, particularly in the area of the Energy Community Secretariat's Annual Report.

#### **KRA 1. Harmonize regulatory work of the three commissions to enhance performance of the market.**

KRA 1.1. Assist regulators to further harmonize rules that strengthen market regulation.

KRA 1.2. Assist regulators to refine the model and revise the rules on tariff methodology to be more cost-based.

REAP attended the FERC Public hearing on the draft amendments to the Rule on Obtaining the Status of Eligible Customer. In the meeting, REAP participated by informing the attendees on REAP's and the Market Working Group's activities on the default supplier mechanism, the result of which is the introduction of that mechanism in the Bosnia and Herzegovina Electric Power Sector. In addition, REAP explained the basics of the default supplier mechanism, a practice applied in Europe and the region and the key criteria that have to be applied in Bosnia and Herzegovina to meet the requirements of the EU Directive and Energy Community Treaty with regard to market opening.

REAP also attended the RSERC Public hearing on Draft Rule on Eligible Customer. The proposed Rule on Eligible Customers was issued as a result of the Market Working Group and REAPs' work on the transition period issue and the establishment of the Default Supplier mechanism. REAP found that RSERC implemented all recommendations from the document on the establishment of the Default Supplier Mechanism that REAP developed as the result of the referenced working group activities.

KRA 1.3. Assist regulators to issue or amend regulations to meet EC Treaty requirements.

KRA 1.4. Assist regulators as necessary to adapt to changing demands.

KRA 1.5. Provide assistance in drafting commercialized contracts for an open market.

## **KRA 2. Technical and regulatory preparation for market opening.**

KRA 2.1. Advise and assist regulators' implementation of recommendations in the market opening policy paper to eliminate impediments.

KRA 2.1.1. Advise regulators on further development of policy paper. As requested, consult with Ministries on same.

KRA 2.1.2. Advise and assist regulators to revise licensing rules to accommodate market opening.

KRA 2.1.3. Assist regulators to require and EPs to implement load research.

As planned, REAP organized a one-day kick-off meeting of the Load Research Working Subgroup (Subgroup) with members from the three regulatory commissions and the representatives of the power companies in BiH. Foundation issues for further Load Research activities were discussed based on presentations by REAP and STTA. After the kick-off meeting REAP developed two documents for the power utilities' teams for Load Research: (i) a Template for the Scope of Work to perform Load Research in the utility; and (ii) the Draft Questionnaire that power utilities will distribute to customers. These documents will serve as a template for the utilities to use for their in-company work, as agreed in the second Subgroup meeting. The most lively discussion took place on how the EPs should design samples for Load Research.

KRA 2.1.4. Lead Case Study effort, consisting of open market base case and scenarios.

REAP organized a two-day kick-off meeting of the Case Study Market Opening Working Subgroup (Case Study Subgroup) to discuss the following issues: (i) The goals of the Case Study; (ii) Proposed approach to the development of the Case Study and timing; (iii) Action Plan and the Subgroup working methodology.

After the meeting and as requested by REAP, the three EPs, ISO and the representative of EFT Group sent their thoughts on the relations between the Customers, DSOs, Suppliers, ISO, and Balancing Responsible Party (BRP) in the wholesale and retail market. REAP thereafter consolidated the comments into a document for distribution to the Case Study participants.

KRA 2.1.5. Assist/lead Market Working Group.

KRA 2.1.5.1. Lead and assist sub-group on assessment of World Bank Wholesale Market Study and its implementation in BiH.

KRA 2.1.5.2. Lead and assist sub-group on extension of transition period.

REAP worked with the Subgroup to further harmonize the three regulatory commissions' approaches on further steps for market opening, based on the establishment of the Default Supplier mechanism. REAP warned participants that decisions and potential amendments to the laws that support the described approach regarding the establishment of the Default Supplier mechanism should be carefully crafted. In addition, REAP addressed the need for the regulatory commissions to develop action plans to eliminate impediments and create preconditions for market functioning after 2015.

KRA 2.1.5.3. Lead/assist sub-group on Supplier of Last Resort (SOLR).

KRA 2.1.5.4. Lead /assist sub-group on Default Supplier (DS).

Please see KRA 2.1.5.2.

KRA 2.1.6. Advise regulators to create policy and requirements on new metering system to meet market opening requirements.

KRA 2.1.7. Research regional and EU best practices on ancillary services and balancing.

KRA 2.2. Advise and assist ministries on tasks needed to remove impediments to market opening.

KRA 2.2.1. Assist MOFTER to communicate BiH position on wholesale market and market operator to ECRB and the Secretariat.

- KRA 2.2.2. Develop road-map on regional and local day ahead market (DAM) if BiH accepts the concept.
- KRA 2.2.3. Advise and assist MOFTER and regulators on the establishment of the regional Coordinated Auction Office (CAO).
- KRA 2.2.4. Advise and assist FMERI with regard to new Federation Electricity Law.
- KRA 2.2.5. If Federation drafts a Federation Gas Law, REAP will assist as requested.
- KRA 2.2.6. Advise and assist Ministries and regulators on needed legislation and amendments for market opening.
- KRA 2.2.7. Assist MOFTER and EPs in the revision of the Procurement Law to allow operational trading of electricity.
- KRA 2.3. Assist regulators to adapt to changing demands, when necessary.
- KRA 2.3.1. Assist FERC to implement regulatory policy.
- KRA 2.4. Advise industrial and commercial customers on the status of market opening.
- KRA 2.5. Organize a closing conference on the status of the electricity market in BiH.

**KRA 3. Assist and advise MOFTER with regard to the State Gas Law.**

- KRA 3.1. Advise and assist if requested with further developments on drafting State Gas Law.

After the election and in the of the receipt of an Opening Letter from the Energy Community Secretariat on noncompliance with the Gas Directives, REAP held a series of meetings to determine if work on the State Gas Law could be restarted. In a meeting with MOFTER, REAP suggested that the Secretariat's letter is a good reason for MOFTER to initiate new discussions between the two entity ministries on the organization of the Gas Sector in BiH.

REAP attended the meeting organized by MOFTER to prepare the answer to Energy Community Secretariat on the Opening Letter. In the meeting two entity representatives reiterated their earlier positions, particularly with regard to the role of the regulator on the State level and the organization of the Transportation System Operator. After a long discussion, REAP proposed and the attendees accepted that with REAP's assistance, MOFTER will prepare the answer to the Energy Community Secretariat letter, explaining the basic disagreement between two entity ministries and the need for political negotiation on these disagreement, attaching the two Ministries' analysis. REAP drafted the agreed letter.

**KRA 4. Strengthen the State Government’s role in the energy sector to facilitate BiH speaking with one voice in the internal and international liberalization of the energy sector.**

KRA 4.1. Perform written analysis of Third Liberalisation Package.

KRA 4.1.1. If the Energy Community requires compliance with the Third Package, develop a road map to implement it.

KRA 4.2. Follow all activities in BiH Electric Power Sector.

KRA 4.3. Monitor decisions made by Energy Community and update implementation.

REAP analyzed the Energy Community Secretariat Annual Report on the Implementation of the *Acquis Communautaire* and requested meeting with the State Ministry (MOFTER) to remind/inform MOFTER representatives that this document addressed a number of Energy Community Treaty areas with which Bosnia and Herzegovina has not complied. In the meeting , REAP suggested that MOFTER prepare a document to inform the BiH Ministerial Council and all Energy Sector Stakeholders on the obligations they have to fulfill to implement the Treaty. In addition REAP raised Regional Market Opening, informing MOFTER that the Market Working Group developed. REAP also suggested MOFTER to initiate a process in the BiH Ministerial Council and entity governments to analyze this National Action Plan and take positions on it. MOFTER requested REAP to assist them on better understanding of these concepts and documents and on creating further activities in connection therewith.

KRA 4.4. Advise and assist MOFTER to undertake actions to implement new obligatory decisions made by the Energy Community Ministerial Council.

**KRA 5. Initiate regulatory partnership in cooperation with NARUC that will pair the three BiH regulators with a U.S. regulatory commission.**

KRA 5.1. Advise and assist NARUC, USAID and the regulators in the organization of the partnership.

KRA 5.2. Coordinate the partnership.

**TASK OBJECTIVE 2: RESTRUCTURED AND COMMERCIALIZED ENERGY COMPANIES**

**KRA 1. Assist as necessary and when requested in restructuring and commercialization of energy companies.**

KRA 1.1. Advise and assist FMERI to develop energy policy that prescribes unbundling deadline for the Federation EPs.

- KRA 1.2. Comment on the EPs' draft restructuring documents, as requested.
- KRA 1.3. Assist and advise EPs to develop and implement processes that ensure every unbundled company receives revenue that reflects its costs.

## VII STATUS OF OVERALL PROJECT PROGRESS PER IMPACT INDICATORS

No	Indicator	Achieved Units of Measurement in this Quarter	Cumulative Total Fiscal Year 2012
1.	Clean Energy related measure	1	1
2.	Number of policy reforms/laws/regulations/administrative procedures drafted and presented for public/stakeholder consultation to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of USG assistance	14	14
3.	Number of days of technical assistance trade and investment environment provided to counterparts or stakeholders	50	50
4.	Number of days of USG funded technical assistance in technical energy fields provided to counterparts or stakeholders	60	60
5.	Number of new legislative, policy reforms and regulatory practices initiated to strengthen economic governance at all levels	2	2
6.	Number of public sector officials trained with USG assistance	40	40

## VIII OVERALL TASK PROGRESS CHART

ACTIVITIES & DELIVERABLES Scheduled For This Period	PROGRESS TO DATE		
	Completed	In Progress	Deferred
Contract signature and authorization to start work	•		
Inception meetings with USAID CTO, March; project briefing with USAID Mission BiH	•		
Install REAP systems and equipment in local office	•		
Introduce project to the stakeholder	•		
Review and finalize Annual Work Plan and PBMS with USAID performance indicators with CTO	•		
PBMS and R-4 reporting to USAID	•		
Annual and Completion Reports	•		
Demobilization Plan		•	
<b>TO 1: BIH ENERGY SECTOR FULLY INTEGRATED INTO THE REGIONAL MARKET AND THE EU</b>			
KRA 1. Harmonize regulatory work of the three commissions to enhance performance of the market.		•	
KRA 1.1. Assist regulators to further harmonize rules that strengthen market regulation.		•	
KRA 1.2. Assist regulators to refine the model and revise the rules on tariff methodology to be more cost-based.		•	
KRA 1.3. Assist regulators to issue or amend regulations to meet EC Treaty requirements.		•	
KRA 1.4. Assist regulators as necessary to adapt to changing demands.		•	
KRA 1.5. Provide assistance in drafting commercialized contracts for an open market.		•	
KRA 2. Technical and regulatory preparation for market opening.		•	
KRA 2.1. Advise and assist regulators' implementation of recommendations in the market opening policy paper to eliminate impediments.		•	
KRA 2.1.1. Advise regulators on further development of policy paper. As requested, consult with Ministries on same.		•	
KRA 2.1.2. Advise and assist regulators to revise licensing rules to accommodate market opening.		•	
KRA 2.1.3. Assist regulators to require and EPs to implement load research.		•	



